

CHICAGO & ILLINOIS MIDLAND RAILWAY COMPANY
15TH AND NORTH GRAND AVENUE EAST
SPRINGFIELD, ILLINOIS 62705

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NEW NO
#15
16666
RECORDED 53
FILED 1423

December 21, 1989

Secretary
Interstate Commerce Commission
Washington, DC 20423

DEC 22 1989 - 12 25 PM
9-356A061
INTERSTATE COMMERCE COMMISSION

Dear Sir:

Enclosed for recordation under the provisions of 49 U.S.C. §11303(a) and the regulations thereunder, are the original and one counterpart of a Junior Security Agreement between Chicago & Illinois Midland Railway Company ("Debtor") and Brighton Place, Inc., as agent for the Sellers named in that certain Stock Sale Agreement dated as of November 14, 1989, as amended, with QF, Ltd. (the "Secured Party"), a primary document dated December 21, 1989.

The names and addresses of the parties to the enclosed document are as follows:

Debtor: Chicago & Illinois Midland
Railway Company
Post Office Box 139
Springfield, IL 62705

Secured
Party: Brighton Place, Inc. as agent
for Sellers named in that certain
Stock Sale Agreement dated as of
November 14, 1989, as amended,
with QF, Ltd.
One Continental Tower
1701 Golf Road, Suite 804
Rolling Meadows, IL 60008

Included in the property covered by the aforesaid Junior Security Agreement are all railroad cars, locomotives and other rolling stock intended for use related to interstate commerce, or interests therein, owned by the Chicago & Illinois Midland Railway Company at the date of said Junior Security Agreement or thereafter acquired by it or its successor.

Please return the original of the enclosed documents to Ms. Pamela Mills, Keck, Mahin & Cate, 8300 Sears Tower, 233 South Wacker Drive, Chicago, Illinois 60606, or to the bearer hereof.

CT. Kappeler
Consent

Also enclosed is a remittance in the amount of \$15.00 for the required recording fees.

A short summary of the document to appear in the index follows:

Junior Security Agreement between the Chicago & Illinois Midland Railway Company, an Illinois railroad corporation ("Debtor"), and Brighton Place, Inc., as agent for the Sellers named in that certain Stock Sale Agreement dated as of November 14, 1989, as amended, with QF, Ltd. (the "Secured Party"), One Continental Tower, 1701 Golf Road, Suite 804, Rolling Meadows, Illinois 60008, dated December 21, 1989, relating to the following equipment, inter alia, all railroad cars, locomotives and other rolling stock of the Debtor whether now owned or hereafter acquired, including, without limitation, the equipment described in Appendix A to the Junior Security Agreement.

Very truly yours,

CHICAGO & ILLINOIS MIDLAND
RAILWAY COMPANY

By: _____

George L. Stern
President

16666
RECORDED 23

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INTERSTATE COMMERCE COMMISSION

JUNIOR SECURITY AGREEMENT

AGREEMENT made as of this 21st day of December, 1989, between CHICAGO & ILLINOIS MIDLAND RAILWAY COMPANY, an Illinois railroad corporation ("Debtor"), and BRIGHTON PLACE, INC., as agent for the Sellers named in that certain Stock Sale Agreement dated November 14, 1989, as amended (the "Sale Agreement"), among QF, Ltd., Robert A. Dyer, Anwar Alimumal, W. Scott Perry, Harry A. Cockrell, Bruce D. Burroughs and Phillip C. Barry (the "Secured Party").

In order to secure the payment of that certain Secured Subordinated Note of Debtor of even date herewith payable to Secured Party or registered assigns in the principal amount of up to \$3,000,000 with interest thereon and that certain Additional Payment Subordinated Note of Debtor of even date herewith payable to Secured Party or registered assigns with interest thereon (which promissory notes, together with any note or notes issued in substitution therefor, are herein collectively called the "Notes" and individually called a "Note"), issued pursuant to the terms of the Sale Agreement (the Notes and all liabilities and obligations thereunder are herein collectively referred to as the "Obligations"), the parties hereto hereby agree as follows:

1. Security Interest and Collateral. In order to secure the payment and performance of the Obligations and subject to the provisions of Section 12 hereof, Debtor hereby grants Secured Party a Security Interest (herein called the "Security Interest") in the following property (herein called the "Collateral"):

(a) EQUIPMENT:

All railroad equipment, including without limitation all rolling stock, locomotives, cabooses, bulkhead flat cars, refrigerated boxcars, open-top hopper cars, woodrack cars, covered hopper cars, gondola cars, woodchip hopper cars, maintenance of way equipment, any other rail cars together with all accessories, equipment, parts and appurtenances appertaining or attached to such car (including, but not limited to the equipment described in Appendix A attached hereto), and rail ties and capital improvements thereon, and all other equipment of Debtor, whether now owned or hereafter acquired;

(b) INVENTORY:

All inventory of Debtor, whether now owned or hereafter acquired;

(c) ACCOUNTS, CONTRACT RIGHTS AND OTHER RIGHTS TO PAYMENT:

Each and every right of Debtor to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property by Debtor, out of a rendering of services by Debtor, out of a loan by Debtor, out of the overpayment of taxes or other liabilities of Debtor, or otherwise arises under any contract or agreement, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests which Debtor may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any of the property of such account debtor or other obligor; all including but not limited to all present and future debt instruments, chattel papers, accounts and contract rights of Debtor; and

(d) CONTRACT RIGHTS:

All rights, title and interest of Debtor in and to any and all contracts, agreements, licenses and permits to which Debtor now or hereafter is a party or which relate to Debtor's business (including any warranties or indemnities contained therein), including without limitation any agreements with other operating railroads pursuant to which rights of passage over tracks are granted and the contracts and agreements listed on Appendix B hereto;

(e) GENERAL INTANGIBLES:

All general intangibles of Debtor, whether now owned or hereafter acquired, including, but not limited to, applications for patents, copyrights, trademarks, tradenames, good will, tradenames, customer lists, permits and franchises, and the right to use Debtor's name;

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All of the above together with all substitutions and replacements for any of the foregoing property and proceeds of any and all of the foregoing property and, in the case of all tangible Collateral, together with (i) all accessories, attachments, parts, equipment, accessions and repairs now or hereafter attached or affixed to or used in connection with any such goods, and (ii) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods.

2. Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

(a) Debtor is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation. This Agreement has been duly and validly authorized by all necessary corporate action.

(b) The Collateral will be used primarily for business purposes.

(c) If any part or all of the tangible Collateral will become so related to particular real estate as to become a fixture, the real estate concerned is described in Appendix A attached to the Junior Mortgage referred to in the Notes (the "Mortgage") and the name of the record owner is as set forth in the Mortgage.

(d) Debtor's chief place of business is and will continue to be located at the address shown on Appendix C. Debtor's records concerning its accounts and contract rights are kept at such address.

(e) Debtor represents that all the rolling stock, including without limitation, locomotives, cabooses, bulkhead flat cars, refrigerated boxcars, open-top hopper cars, gondola cars, woodrack cars, covered hopper cars, woodchip hopper cars and all other rail cars (hereinafter called the "Rolling Stock") listed on Appendix A hereto constitutes all of the Rolling Stock which the Company owns or leases.

3. Additional Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

(a) Except as otherwise provided herein and Appendix C hereto, Debtor has (or will have at the time Debtor acquires rights in Collateral hereafter arising)

and will maintain absolute title to each item of Collateral free and clear of all security interests, liens and encumbrances, except the Security Interest, and will defend the Collateral against all claims or demands of all persons other than Secured Party, and parties acquiring security interests, liens and encumbrances permitted hereby. Except as otherwise provided herein, Debtor will not sell or otherwise dispose of the Collateral or any interest therein; provided, however, that, until the occurrence of an Event of Default under Section 9 and the revocation by Secured Party of Debtor's right to do so, Debtor may sell any inventory constituting Collateral to buyers in the ordinary course of business.

(b) Debtor will not permit any tangible Collateral to be located in any state (and, if county filing is required, in any county) in which a financing statement covering such Collateral is required to be, but has not in fact been, filed.

(c) All rights to payment and all instruments, documents, chattel papers and other agreements constituting or evidencing Collateral are (or will be when arising or issued) the valid, genuine and legally enforceable obligation, subject to no defense, set-off or counterclaim (other than modifications, amendments and cancellations arising in the ordinary course of business which will not individually or in the aggregate have a material adverse effect on business or financial conditions of the Debtor) of any such obligation without Secured Party's prior written consent, and will not subordinate any such right to payment to claims of other creditors of such account debtor or other obligor.

(d) Debtor will (i) keep all tangible Collateral in good repair, working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof; (ii) promptly pay all taxes and other governmental charges levied or assessed upon or against any Collateral or upon or against the creation, perfection or continuance of the Security Interest; (iii) except as otherwise provided herein, keep all Collateral free and clear of all security interests, liens and encumbrances except the Security Interest and those items listed on Appendix C hereto; (iv) at all reasonable times, permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records

pertaining to the Collateral and its business and financial condition; (v) keep accurate and complete records pertaining to the Collateral and pertaining to Debtor's business and financial condition and submit to Secured Party such periodic reports concerning the Collateral and Debtor's business and financial condition as Secured Party may from time to time reasonably request; (vi) promptly notify Secured Party of any loss of or material damage to any Collateral or of any adverse change, known to Debtor, in the prospect of payment of any sums due on or under any instrument, chattel paper, account or contract right constituting Collateral; (vii) subject to the rights of the Senior Debt Holders referred to in the Notes, if Secured Party at any time so request after the occurrence of an Event of Default under Section 9, promptly deliver to Secured Party any instrument, document or chattel paper constituting Collateral, duly endorsed or assigned by Debtor to Secured Party; (viii) from time to time execute such financing statements as Secured Party may reasonably deem required to be filed in order to perfect the Security Interest and, if any Collateral is covered by a certificate of title, execute such documents as may be required to have the Security Interest properly noted on a certificate of title; (ix) pay when due or reimburse Secured Party on demand for all costs of collection of any of the Obligations and all other out-of-pocket expenses (including in each case all reasonable attorneys' fees) incurred by Secured Party in connection with the enforcement of the Security Interest or the enforcement of this Agreement or any or all of the Obligations; (x) subject to the rights of the Senior Debt Holders referred to in the Notes, execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings which Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured Party's rights under this Agreement; (xi) not use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance; (xii) not permit any tangible Collateral to become part of or to be affixed to any real property, without first assuring to the reasonable satisfaction of Secured Party that the Security Interest will be prior and senior to any interest or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein; (xiii) not change any markings or serial numbers on any of the Rolling Stock listed in Appendix A

until after the Debtor has given notice in writing to the Secured Party of its intention to make such change; (xiv) notify the Secured Party of any other Rolling Stock which it acquires or leases, and shall comply with its obligation under clauses (viii) and (x) of this Section 3(d) as it pertains to that Collateral. If Debtor at any time fails to perform or observe any agreement contained in this Section 3(d), and if such failure shall continue for a period of ten calendar days after Secured Party gives Debtor written notice thereof, Secured Party may (but need not) perform or observe such agreement on behalf and in the name, place and stead of Debtor (or, at the option of the Secured Party) and may (but need not) take any and all other actions which Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the performance of obligations under contracts or agreements with account debtors or other obligors, the procurement and maintenance of insurance, the execution of financing statements, the endorsement of instruments, and the procurement of repairs, transportation or insurance); and, except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law, Debtor shall thereupon pay to Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees) incurred by Secured Party in connection with or as a result of its performing or observing such agreements or taking such actions, together with interest thereon from the date expended or incurred by Secured Party at the highest rate then applicable to any of the Obligations. To facilitate the performance or observance by Secured Party of such agreements of Debtor, Debtor hereby irrevocably appoints (which appointment is coupled with an interest) Secured Party, or its delegate, as the attorney-in-fact of Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of Debtor, any and all instruments, documents, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Debtor under this Section 3.

4. Insurance.

(a) Risks to be Insured. The Company will at its expense maintain (i) insurance with respect to the

property subject to the lien of the Mortgage (the "Mortgaged Property") and Equipment against physical loss (including, without limitation, loss resulting from fire, lightning, wind and hail, sprinkler leakage, explosion and smoke), written on an "all risks" replacement cost basis, in amounts sufficient to prevent the holders of Notes or the Company from becoming a co-insurer of any partial loss under the applicable policies; (ii) public liability, including bodily injury and property damage, insurance applicable to the Mortgaged Property in such amounts as are usually carried by persons operating similar properties in the same general locality, but in any event with a combined single limit of not less than \$20,000,000 per occurrence and \$20,000,000 in the aggregate; (iii) appropriate workers' compensation insurance with respect to any work on or about the Mortgaged Property to the extent required by the law of the states in which the Mortgaged Property is located and to the extent necessary to protect the Company or the Secured Party against workers' compensation claims; (iv) at any time when the improvements portion of any parcel of Mortgaged Property is being constructed, repaired, replaced, rebuilt or restored, builder's risk insurance (in completed value, nonreporting form) in an amount not less than the actual replacement value of such improvements, exclusive of foundations and excavations; and (v) such other insurance in such amounts and against such risks as is commonly obtained in the case of property similar to the Mortgaged Property or the Equipment and located in the states in which the Mortgaged Property or the Equipment is located. Such insurance shall be written by companies of nationally recognized financial standing, legally qualified to issue insurance.

(b) Policy Provisions. Subject to the rights of the Senior Debt Holders referred to in the Notes, all insurance maintained by the Company pursuant to subparagraphs (a)(i), (a)(ii), (a)(iv) and (a)(v) of this Section 4 shall (i) name the Company and Secured Party as insureds, as their respective interests may appear; (ii) provide, except in the case of public liability insurance, that all insurance proceeds for losses of less than \$100,000 shall be adjusted with and payable to the Company, and that all insurance proceeds for losses of \$100,000 or more shall be adjusted with the Company and Secured Party jointly, but shall be payable to the Secured Party; (iii) include effective waivers by the insurer of all claims for insurance premiums against the Secured Party; (iv) provide that any losses shall be

payable notwithstanding (A) any act of negligence of the Secured Party or the Company, (B) any foreclosure or other proceedings or notice of sale relating to the Mortgaged Property or the Equipment, or (C) any change in the title to or ownership of the Mortgaged Property or the Equipment; and (v) provide that no cancellation thereof shall be effective until at least thirty (30) days after receipt by the holders of Notes of written notice thereof.

5. Damage to or Destruction of Mortgaged Property.

(a) Notice. In case of any material damage to or destruction of the Mortgaged Property or Equipment or any part thereof, the Company will promptly give written notice thereof to the Secured Party, generally describing the nature and extent of such damage or destruction.

(b) Restoration. Except as otherwise provided in Section 5(d) hereof, in case of any damage to or destruction of the Mortgaged Property or Equipment or any part thereof, the Company, whether or not the insurance proceeds, if any, on account of such damage or destruction shall be sufficient for the purpose, at its expense, will promptly commence and complete the repair, replacement, rebuilding or restoration of the Mortgaged Property or Equipment as nearly as possible to its value, condition and character immediately prior to such damage or destruction, with such alterations and additions as may be made at the Company's election.

(c) Application of Insurance Proceeds in the Event of Restoration. Except as otherwise provided in Section 5(d) and subject to the rights of the Senior Debt Holders referred to in the Notes, all insurance proceeds received by or payable to the holders of Notes on account of any damage to or destruction of all or any part of the Mortgaged Property or Equipment (less the actual cost, fees and expenses incurred in the collection thereof) shall be applied or dealt with by the Secured Party as follows:

(i) All such proceeds actually received by the holders of Notes or the Secured Party on account of any such damage or destruction shall, unless there is an uncured Event of Default or event which with the passage of time or the giving of notice or both would constitute such an Event of

Default, be made available for purposes of repairing, replacing, rebuilding or restoring the Mortgaged Property or Equipment, subject to deposit by the Company with the Secured Party of the amount in excess of insurance proceeds necessary to effect the restoration.

(ii) The holders of the Notes and the Secured Party shall permit the application of the net proceeds to payment of the costs of repair, replacement, rebuilding or restoration upon request made by the Company to the Secured Party no more often than monthly, accompanied by lien waivers through the last previous request. If the net proceeds are not sufficient to pay such costs in full, the Company will nonetheless complete the same and will pay the portion of the cost thereof in excess of the amount of the net proceeds. So long as there is no Event of Default or event which with the passage of time or the giving of notice or both would constitute such an Event of Default, any balance of net proceeds remaining after payment of all costs of any repair, rebuilding, replacement or restoration shall be remitted to the Company within five (5) days after evidence is given by the Company to the Secured Party of complete and full payment of such costs.

(d) Prepayment in the Event the Mortgaged Property is Not Restored. In case all or any part of the Mortgaged Property is destroyed or damaged so as to render such property, in the reasonable judgment of the Debtor, incapable of being repaired, replaced, rebuilt or restored for purposes of normal operation of the Company business on the property within six (6) months after its damage or destruction, then in either such event, the Company shall have no obligation to repair, replace, rebuild or restore the Mortgaged Property and no right to have the net proceeds of the insurance claim applied to such repair, replacement, rebuilding or restoration, and whether or not the net proceeds of any applicable insurance claim are sufficient for such purpose, the Company shall, subject to the rights of the Senior Debt Holders referred to in the Notes, on the first Payment Date (as defined in the Notes) occurring at least thirty (30) days after such damage or destruction, in addition to making the regular payment on the Notes, if any, due on such date, prepay the Notes in an amount equal to the then unpaid principal amount of the Notes, provided, that the holders of the Notes

shall have the right to waive all or any portion of such prepayment, in which event the Company shall have no right to make the prepayment provided for herein. The net proceeds of any insurance claim shall be applied to any such prepayment. Any insurance proceeds remaining after prepayment pursuant to this Section 5(d) shall be remitted by the holders of the Notes or the Secured Party to the Company within five (5) days after such prepayment.

6. Taking of Mortgaged Property.

(a) Notice; Assignment of Awards. In case of a taking as a result of or in lieu of or in anticipation of the exercise of the right of condemnation or eminent domain of all or any part of the Mortgaged Property, or the commencement of any proceedings or negotiations that might result in any such taking, the Company will promptly give written notice thereof to the Secured Party, generally describing the nature and extent of such taking or the nature of such proceedings or negotiations and the nature and extent of the taking that might result therefrom, as the case may be. Subject to the rights of the Senior Debt Holders, the Company hereby irrevocably assigns, transfers and sets over to the Secured Party all of its rights to any award or payment on account of any taking. The Company will in good faith and with due diligence file and prosecute what would otherwise be its claims for any such award or payment and cause the same to be collected and paid over to the Secured Party, and irrevocably authorizes and empowers the Secured Party, in the name of the Company, to collect and to receipt for any such award or payment and, in the event the Company fails so to act or is otherwise in default hereunder, to file and prosecute such claim. The Company will pay all costs, fees and expenses reasonably incurred by the Secured Party in connection with any taking and seeking and obtaining any award or payment on account thereof.

(b) Restoration. Except as provided in Section 6(d) hereof, in case of a taking of the Mortgaged Property, the Company will, whether or not the awards or payments, if any, on account of such taking shall be sufficient for the purpose, at the Company's expense, promptly commence and complete restoration of the Mortgaged Property as nearly as possible to its value, condition and character immediately prior to such taking, except to the extent made impossible or in the reasonably judgment of the Company uneconomic by any

reduction in area caused by such taking, provided that in case of a taking for temporary use, the Company shall not be required to effect restoration until such taking is terminated.

(c) Application of Awards in the Event of Restoration. Except as otherwise provided in Section 6(d) hereof and subject to the rights of the Senior Debt Holders referred to in the Notes, all awards and payments received by or payable to the holders of Notes or the Secured Party on account of a taking of all or any part of the Mortgaged Property (less the actual costs, fees and expenses incurred in the collection thereof) shall be applied to pay the cost of restoring the portion of the Mortgaged Property remaining after such taking, such application to be effected substantially in the same manner and subject to the same conditions as provided in Paragraph 5(c)(ii) hereof with respect to insurance proceeds.

(d) Prepayment in the Event the Property is Not Restored. In the event a parcel of Mortgaged Property is not restored pursuant to Section 5(b) hereof, the Company shall, subject to the rights of the Senior Debt Holders referred to in the Notes, prepay the Notes, such prepayment to be effected substantially in the same manner and subject to the same conditions as provided in Section 5(d) hereof with respect to prepayment in the event of destruction or damage of the Mortgaged Property. The net proceeds of any awards or payments shall be applied to any such prepayment. Any proceeds remaining after prepayment pursuant to this Section 6(d) shall be remitted by the holders of the Notes or the Secured Party to the Company within five (5) days after such prepayment or the Secured Party.

7. Affirmative Covenants. The Company covenants and agrees that so long as any of the Obligations shall remain unpaid, it will:

(a) At all times keep proper books of record and account in which full, true and correct entries will be made of its transactions in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods involved.

(b) At all reasonable times permit the Secured Party and its representatives to inspect its books and records and to make extracts therefrom and to inspect its properties and operations.

(c) Furnish to the Secured Party, as soon as available, but in any event within 120 days after the close of each fiscal year of the Company, duplicate signed copies of an audit report prepared and certified (without qualification as to the scope of the audit) by Checkers Simon & Rosner, or another firm of independent certified public accountants selected by the Company and satisfactory to the Secured Party, which report shall include a balance sheet of the Company as at the end of such year and a statement of income and retained earnings and a statement of cash flows of the Company reflecting the operations during said year, all in reasonable detail and setting forth comparable figures, if any, for the preceding fiscal year.

(d) Maintain its corporate existence in good standing (except that it may reincorporate under the Illinois Business Corporation Act of 1983, as amended), and comply with all applicable laws and regulations of the United States and of each state thereof and of each political subdivision thereof and of any and all other governmental authorities, except where failure to so comply would not have a material adverse effect on the business operations or financial or other condition of the Company.

(e) Pay before they become delinquent (i) all taxes, assessments and governmental charges or levies imposed on the Company or upon the property of the Company, (ii) all claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like persons which, if unpaid, might result in the creation of a lien or charge upon any property of the Company, and (iii) all claims, assessments or levies legally required to be paid by the Company pursuant to any agreement, contract, law, ordinance or governmental rule or regulation governing any pension, retirement, profit-sharing or any similar plan of the Company, provided that the Company shall have the right to contest in good faith, by appropriate proceedings promptly initiated and diligently conducted which will prevent the forfeiture or sale of any property of the Company or any material interference with the use thereof by the Company, the validity, amount or imposition of any such tax, assessment, charge, levy, claim or demand and upon such good faith contest to delay or refuse payment thereof, if such reserve or other appropriate provision, if any, as shall be required by generally accepted accounting principles shall have been made therefor.

(f) Maintain and keep its properties in good repair, working order and condition, ordinary wear and tear excepted, and from time to time make all needful and proper repairs, renewals and replacements so that the business carried on in connection therewith may be properly conducted at all times.

(g) Pay compensation, whether by way of salaries, bonuses, participations in pension or profit sharing plans, fees under management contracts or for professional services, to any of its officers, directors, employees or stockholders only in amounts which are not in excess of reasonable compensation paid for similar services by similar businesses, provided that at no time shall the aggregate compensation paid during any year to Richard Fanslow and his affiliates (other than reimbursements of QF, Ltd. by the Company for salary and benefits paid by QF, Ltd. to George Stern and Raquel Swan) exceed \$200,000.

(h) Give the Secured Party prompt notice in writing of any condition or event which constitutes a default under Section 9 hereof, or which, after notice or lapse of time, or both, would constitute such a default.

(i) Take all action necessary in order to perfect and to protect and maintain the lien of the Mortgage.

(j) Take all action necessary in order to perfect and to protect and maintain the lien of this Agreement.

(k) The Company shall keep in full force and effect and shall perform and comply with all terms and conditions of (i) the Commonwealth Edison Agreements and (ii) every other material contract and agreement to which the Company is a party or which in any way relates to the operation of its business (the Commonwealth Edison Agreements and all such other contracts and agreements are collectively referred to as the "Material Agreements") and the Company shall defend and maintain all of its rights thereunder. Upon receipt of any notice of default under any Material Agreement, the Company shall immediately notify the Secured Party and enclose a copy of such notice of default. The Secured Party shall have the right, but not be obligated, to cure any default of the Company thereunder. The Company shall reimburse the Secured Party for all expenses incurred by

it in making any such cure. The Company shall not cancel or surrender any material Agreement or amend or modify any provision thereof in any material respect without the prior written consent of the Secured Party. The Company shall, upon direction of the Secured Party, exercise any options to renew or extend any Material Agreement which becomes exercisable while the Notes are outstanding.

8. Negative Covenants. The Company covenants and agrees that so long as any of the Obligations shall remain unpaid, it will not:

(a) borrow money except as permitted in the Sale Agreement and except for:

(i) the loans evidenced by the Credit Note and Bridge Notes referred to in the Notes;

(ii) funded debt of the Company incurred in connection with the acquisition of machinery and equipment used in the business of the Company and not held as inventory for sale or lease, which indebtedness is secured by conditional sales contracts, title retention agreements or other purchase money security interests, or constitutes a capitalized lease obligation, provided that the indebtedness secured by any such security interest shall not exceed 80% (or 100% in the case of capitalized lease obligations) of the cost of the assets acquired subject thereto and such security interest shall not encumber any property of the Company other than the assets acquired subject thereto, and provided further that the aggregate amount of all such indebtedness secured by such security interests at any time outstanding shall not exceed \$100,000;

(iii) other funded debt of the Company, which indebtedness is unsecured, provided that the aggregate amount of all such indebtedness plus the principal amount of the Secured Subordinated Note of the Company, the Senior Debt and the indebtedness permitted by clause (ii) above, shall at no time exceed 90% of total capitalization.

(b) purchase, or permit to exist, investments in, stock or securities of, or make or permit to exist loans or advances to, or other investments in, or guarantee, endorse or otherwise become contingently

liable for the obligations of, any person, firm or corporation (including investments in or loans or advances to any corporation proposed to be acquired or created as a subsidiary) except:

(i) investments in direct obligations of the United States government maturing within one year of the date of issue thereof;

(ii) certificates of deposit maturing within one year of the date of issue thereof issued by banks having capital and surplus aggregating not less than \$500,000,000;

(iii) commercial paper rated A-1 or P-1 by recognized rating services;

(iv) investments in money market mutual funds with assets of at least \$500,000,000 which invest solely in high-quality, short-term investments;

(v) the endorsement, in the ordinary course of collection, of instruments payable to it or its order; and

(vi) travel and expense advances to its officers and employees in the ordinary course of business.

(c) sell, lease or otherwise dispose of all or any substantial part of its assets (except for the sale or lease of approximately 200 rail cars to be purchased from Bethlehem Steel). For purposes of this paragraph, the disposition in any twelve-month period in any transaction or in any integrated series of transactions of assets with a fair value equal to or greater than 10% of the Company's net worth shall be deemed to be substantial.

(d) acquire, merge or consolidate with any other corporation other than a reincorporation of the Company under the Illinois Business Corporation Act of 1983, as amended.

(e) substantially alter the nature of the business in which the Company is presently engaged, nor purchase or invest, directly or indirectly, in any substantial amount of assets or property other than assets or property useful and to be used in such business.

(f) except on terms no less favorable to the Company than would be obtainable if no such relationship existed, purchase, acquire or lease any property from, or sell, transfer or lease any property to, loan or advance money to, or otherwise deal with, any affiliate of the Company.

(g) create, assume or suffer to exist any mortgage, pledge, encumbrance, lien, security interest or charge of any kind, whether presently effective, springing, conditional or contingent (including any charge upon property purchased under conditional sales contracts, title retention agreements or other purchase money security interests or under leases which constitute capitalized lease obligations) upon any of its property or assets, whether now owned or hereafter acquired, except liens securing the Obligations, and:

(i) liens securing the Senior Debt referred to in the Notes;

(ii) liens for taxes not yet due or which are being contested in the manner provided herein if such reserve or other appropriate provision, if any, as shall be required by generally accepted accounting principles shall have been made therefor; and

(iii) other liens, charges, easements or encumbrances incidental to the conduct of its business or the ownership of its property which were not incurred in connection with borrowing of money or the obtaining of advances or credit and which do not in the aggregate materially detract from the value of its property or materially impair the use thereof in the operation of the business.

(h) declare or pay any dividends (other than stock dividends) or make any other payment or distribution with respect to its capital stock.

9. Events of Default. Each of the following occurrences shall constitute an Event of Default:

(a) default shall be made in the punctual payment of the principal on any of the Notes or the Unsecured Subordinated Note of the Company referred to in the Notes (the "Unsecured Note") when due, whether by regular installment, upon prepayment, by acceleration, at maturity or otherwise; or

(b) default shall have been made in the punctual payment of any interest on any of the Notes or the Unsecured Note when due, whether by regular installment, upon prepayment, by acceleration, at maturity or otherwise, and such default shall have continued for a period of three days; or

(c) the Company defaults in any payment of principal of or interest on any other obligation for borrowed money beyond any period of grace provided with respect thereto or in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created if the effect of such default is to cause, or permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due prior to its stated maturity; or

(d) the loss, suspension, revocation or non-renewal of any governmental license, permit or operating right required for the operation of the Company's business, except where such such license, permit or operating right is reinstated within the imposition of material additional conditions within thirty (30) days of such loss, suspension, revocation or nonrenewal or except where such loss, suspension, revocation or non-renewal would not have a material adverse effect upon the business operations or financial or other condition of the Company; or

(e) an order for relief shall be entered in any Federal Bankruptcy proceeding in which the Company is the debtor; or bankruptcy, receivership, insolvency, reorganization, relief, dissolution, liquidation or other similar proceedings shall be instituted by or against the Company or all or any part of the property of the Company under the Federal Bankruptcy Code or any other law of the United States or any bankruptcy or insolvency law of any state of competent jurisdiction, unless, if such proceedings are instituted against the Company, such proceedings are dismissed or discharged within 45 days after they are instituted; or

(f) the Company shall have become insolvent or unable to pay its debts as they mature, cease doing business as a going concern, make an assignment for the benefit of creditors, admit in writing its inability to pay its debts as they become due, or if a trustee, receiver or liquidator shall be appointed for the Company or for any substantial portion of the assets of the Company; or

(g) default shall be made in the performance or observance of any other of the terms, covenants or conditions of this Agreement and such default shall continue for a period of thirty (30) days after written notice thereof shall have been given by Secured Party to the Company; or

(h) final judgments or orders for the payment of money in excess of \$250,000 in the aggregate shall be rendered against the Company and such judgments or orders shall remain unsatisfied, unstayed and unbonded for a period of ten (10) days after the date such judgments or orders are required to be paid; or

(i) there shall occur any Event of Default under the Mortgage; or

(j) any representation or warranty contained in this Agreement, the Mortgage, the Sale Agreement or in any other document supplied to the Secured Party by the Company in connection with this transaction proves to be false in any material respect when made.

10. Remedies after Event of Default. Upon the occurrence of an Event of Default under Section 9 and at any time thereafter, Secured Party may exercise any one or more of the following rights or remedies: (i) at the option of the Secured Party by notice in writing to Debtor declare all unmatured Obligations and the Unsecured Note to be forthwith due and payable and thereupon all Obligations and the Unsecured Note shall be and become due and payable; (ii) exercise and enforce any or all rights and remedies available after default to a secured party under the Uniform Commercial Code, including but not limited to the right to take possession of any Collateral, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which Debtor hereby expressly waives); the right to sell, lease or otherwise dispose of any or all of the Collateral; and the right to require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to Debtor and Secured Party; it being expressly understood and agreed that if notice to Debtor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 15) at least 10 calendar days prior to the date of intended disposition or other action; and (iii) exercise or enforce any or all other rights or remedies available to Secured Party by law or agreement against the Collateral, against Debtor or against any other person or property.

11. Other Personal Property. If at the time Secured Party takes possession of any tangible Collateral, any goods, papers or other properties of Debtor, not affixed to or constituting a part of such Collateral, are located or to be found upon or within such Collateral, Debtor agrees to notify Secured Party in writing of that fact, describing the property so located or to be found, within 7 calendar days after the date on which the Secured Party took possession. Unless and until Secured Party receives such notice from Debtor, Secured Party shall not be responsible or liable to Debtor for any action taken or omitted by or on behalf of Secured Party with respect to such property without actual knowledge of the existence of any such property or without actual knowledge of the fact that it was located or to be found upon such Collateral.

12. Additional Payment Subordinated Note. Notwithstanding anything herein contained to the contrary, the lien and security interest granted herein upon the Collateral as security for the Additional Payment Subordinated Note shall not attach or become a lien until such time as the unpaid principal of the Secured Subordinated Note of Debtor is less than \$3,000,000, and such lien shall attach as security for the Additional Payment Subordinated Note only to the extent of the excess of \$3,000,000 over the unpaid principal balance of the Secured Subordinated Note.

13. Junior Lien. Notwithstanding anything herein contained to the contrary, the lien and security interest hereof and the rights of the Secured Party hereunder are junior and subordinate to the rights of the Senior Debt Holders.

14. Prepayment. Subject to the terms and provisions of any documents pursuant to which the Senior Debt referred to in the Notes is issued, the Company shall have the right to prepay the Notes and the Unsecured Subordinated Note (as defined in the Notes) or any one or more of them in whole at any time or in part from time to time without notice, premium or penalty, such prepayment to be accompanied with payment of accrued but unpaid interest to the date of prepayment on the amount of principal so prepaid.

15. Miscellaneous. This Agreement does not contemplate a sale of accounts, contract rights or chattel paper, and, as provided by law, Debtor is entitled to any surplus and shall remain liable for any deficiency. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only

explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of the rights or remedies of the Secured Party. All rights and remedies of the Secured Party shall be cumulative and may be exercised singularly or concurrently, by the Secured Party, at the option of the Secured Party, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if mailed by registered or certified mail, postage prepaid, or delivered to Debtor at its address shown on Appendix C hereto or at the most recent address shown on Secured Party's records. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if the Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and the Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to preserve any rights Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective representatives, successors and assigns. Except to the extent otherwise required by law, this Agreement shall be governed by the internal laws of the State of Illinois and, unless the context otherwise requires, all terms used herein which are defined in Articles 1 and 9 of the Uniform Commercial Code, as in effect in said state (including but not limited to the terms "inventory," "equipment," "instrument," "document," "chattel paper," "account," "contract right," and "account debtor"), shall have the meanings therein stated. Any accounting term used herein and not otherwise defined shall have the meaning attributed to it by generally accepted accounting principles. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

Debtor:

CHICAGO & MIDLAND ILLINOIS
RAILROAD COMPANY

By: George L. Stern
President

Attest:

[Signature]
Secretary

Secured Party:

BRIGHTON PLACE, INC., as Agent
aforesaid

By: Robert A. [Signature]
President

Attest:

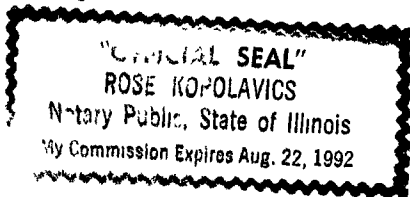
[Signature]
Secretary

ACKNOWLEDGMENT

STATE OF ILLINOIS)
) SS.
COUNTY OF COOK)

The foregoing instrument was acknowledged before me
this 21 day of December, 1989 by Robert A. Dyer Jr.
and Anwar Akhmedunal, the President and
Secretary, respectively, of Chicago & Illinois
Midland Railway Company, an Illinois railroad corporation,
on behalf of the corporation.

*Brighton
R. Dyer
Jr.
a Roman
connection*



Rose Kopolavics
Notary Public

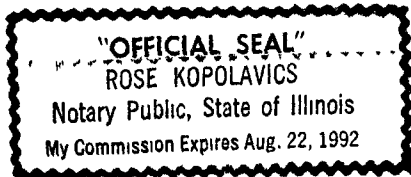
My Commission Expires:

(Notarial Seal)

ACKNOWLEDGMENT

STATE OF ILLINOIS)
) ss.
COUNTY OF COOK)

The foregoing instrument was acknowledged before me
this 16 day of December, 1989 by George R. Stern and
Richard G. Farnell the President and
Secretary, respectively, of Brighton Place, Inc., a(n) Ill. RR Co
corporation, on behalf of the corporation.



Rose Koplavics
Notary Public

My Commission Expires:

(Notarial Seal)

DESCRIPTION OF RAILCARS

Type of Car	Quantity	Lessee	Lease Date	Term(Years)	CIM Car Numbers
Box	7	Solomon Grinding Chem Service, Inc.	May 24, 1989	60 days*	1001, 1002, 1003, 1004, 1005, 1006, 1010
Gondola	110	Transportation Equipment, Inc.	August 15, 1988	2 years	See Part I of Attached Schedule
Gondola	23	Not on Lease	N/A	N/A	See Part II of Attached Schedule
36' 7 1/4" Caboose	6	Not on Lease	N/A	N/A	71, 72, 73, 74, 75, 76
35'10" Open Ballast Car	7	Not on Lease	N/A	N/A	2050, 2051, 2052, 2053, 2054, 2055, 2056
Locomotives	18	Not on Lease	N/A	N/A	18, 20, 21, 22, 23, 30, 31, 50, 52, 54, 60, 61, 70, 71, 72, 73, 74, 75

*Lease has been extended and
will expire 1/18/90

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APPENDIX A Continued

SCHEDULE TO DESCRIPTION OF RAILCARS

Part I:

8083	8318	8413	8508	9510
8229	8319	8419	8510	9511
8246	8321	9420	8512	9512
8251	8325	8423	8516	9513
8252	8326	8425	8517	9514
8254	8329	8429	8520	9516
8259	8330	8431	8533	9517
8260	8334	8441	8534	9518
8262	8337	8447	8536	9519
8265	8347	8449	8537	9520
8270	8349	8457	8538	9522
8272	8350	8458	8544	9523
8280	8355	8465	8553	9525
8284	8356	8466	9500	9526
8295	8362	8470	9501	9529
8303	8375	8475	9502	9530
8306	8384	8480	9503	9531
8308	8385	8483	9504	9532
8309	8392	8494	9505	9534
8310	8393	8501	9506	9535
8311	8402	8503	9508	9536
8312	8404	8504	9509	9537

Part II:

8248	8302	8397	8438	8521
8250	8328	8398	8446	8523
8296	8339	8408	8451	8550
8299	8345	8432	8453	
8301	8363	8433	8496	

APPENDIX A Continued

DESCRIPTION OF MAINTANENCE OF WAY EQUIPMENT

<u>Type of Car</u>	<u>Quantity</u>	<u>CIM Car Numbers</u>
Gondola (Material Car)	6	34, 75, 90, 91, 92, 96
Gondola (Boom Car)	1	85
Box (Material)	2	119, 120
30 Ton Cap (Brown Hoist Crane)	1	46
Flat Car (Material)	1	121
Side Dump	2	201, 202
Crane	2	046, 085

APPENDIX A Continued

DESCRIPTION OF MAINTENANCE OF WAY EQUIPMENT

Type of Equipment	Quantity	Manufacturer	Model/Serial #	Company Location No.
Push Car	5	Fairbanks Morse Co.	4	P-5, 15, 22, 25, 26
Push Car	3	Fairmont Railway Motors	TTL	P-33, 36, 37
Push Car	2	Safetran	Model 500	P-41, 42
Motor Car	4	Fairmont Railway Company	MT-14 Serial #201917	M72
			M-19 Serial #220657	M75
			A-3 Series D Serial #220576	M76
			A-3 Series E Serial #224743	M77
Little Giant Crane	1	Little Giant	Model 32R Serial #328121	112
Speed Swing	1	Pettibone	Model 441-B Serial #2240	92
Derrick Car	1	Fairmont	Model W-63 Serial #194763	17

APPENDIX A Continued

DESCRIPTION OF MAINTENANCE OF WAY EQUIPMENT

Type of Equipment	Quantity	Manufacturer	Model/Serial #	Company Location No.
Ballast Equalizer	1	Tamper	Model BEB-17 Serial #1772857	TT61
Switch Electronic Tamper Mark I	1	Tamper	Serial #1074507	TT62
Tamper, SW & Prod.	1	Jackson Vibrators, Inc.	Model 2300 Serial #5034-7001	T38
Tie Crane	1	Kershaw	Model TC-C2 Serial #2D-25382	T46

APPENDIX B

1. Service Assurance Agreement between C&I and Commonwealth Edison dated December 21, 1987
2. Coal Transportation Agreement between Commonwealth Edison, Burlington, Peoria and Pekin dated January 28, 1987 and First Amendment dated June 23, 1988
3. Rail Transportation Contract among Union Pacific, C and NW, Peoria and Pekin Union, C&I and Commonwealth Edison dated December 29, 1987
4. Operating Agreement for Havana Coal Transfer Plant (1947)
5. Easement between Company and Pillsbury Mills, Inc. (July 15, 1947); License with Pillsbury Mills (October 19, 1954); Transportation Contract with Pillsbury Mills (August 24, 1988); Average Demurrage Agreement (September 9, 1958)
6. Letter Agreement dated March 17, 1987 with Universal Granule; Average Demurrage Agreement with Universal Granule dated April 22, 1986.
7. Transportation Contract dated May 24, 1988 between AZCON, C, M & W Railway and C&I
8. Transportation Contract dated July 15, 1988 between David J. Joseph Company, C M & W Railway and C&I
9. Transportation Contract dated July 28, 1988 between National Material Trading, C, M & W Railway and C&I
10. Transportation Contract (undated) between Messmer & Associates, C, M & W Railway and C&I
11. Rail Transportation Contract dated July 10, 1988 between Flambeau Paper Company, Wisconsin Central, Ltd., C&I and Northwestern Transportation Co. and Rail Transportation Contract dated July 21, 1988 between Farmland Industries, Miss. Pacific. RR Co., CM&W Railway Company and C&I.
12. Professional Services Agreement between C&I and Randolph & Associates, Inc. dated August 22, 1989.

13. Contract for training locomotive engineers between C&I and Canac dated October 5, 1989.
14. General Motors Lease Agreements.
15. Lease of 110 100-ton Gondola cars to Transportation Equipment, Inc.
16. Letter Agreements with Pillsbury Mills dated April 23, 1957 and April 22, 1957; License dated March 17, 1987.
17. Lease with Universal Granule dated November 25, 1986.
18. License with Universal Granule dated November 15, 1986.
19. Asset Purchase Agreement between C&I and IMT dated December 21, 1987.
20. C&IM and Wabash Railroad Co. Trackage Agreement dated January 1, 1930.
21. C&IM and Baltimore Company Agreement dated July 1, 1940.
22. Trackage Agreement between Illinois Central Railroad Company and C&I dated March 17, 1926 and Supplemented July 1, 1988
23. Joint Turnout Agreement with Illinois Central Gulf Railway
24. Agreement with St. John's Employee Service Center
25. Electric Service Agreement dated July 28, 1965
26. Lease with Universal Granule dated November 25, 1985.
27. License with Star Midwest Cablevision dated May 1, 1989.
28. Agreement with Bordon Chemical and Plastics

29. Gas Easement to Central Illinois Light Company
30. Letter Agreement with ITEL
31. Box Car Lease with Solomon Grinding.

INTERCHANGE AGREEMENTS:

32. Pillsbury Company (8/28/89)
33. Iowa Interstate Railroad (1/18/89) and Intermountain Orient (2/1/89)
34. Atchison, Topeka and Santa Fe (10/1/86)
35. Chicago & Northwestern (12/12/88)
36. Soo Line (8/18/88)
37. Peoria & Pekin (10/14/88)
38. Iowa Interstate Railroad (11/30/88)
39. Chicago and Northwestern Transportation Co. (12/24/88)
40. Chicago and Northwestern Transportation Co. (8/31/88)
41. Chicago and Northwestern Transportation Co. (6/5/86)
42. Chicago Missouri and Western Railway (6/24/88)
43. Chicago Northwestern Transportation Co. (8/6/85).
44. Chicago Missouri and Western Railway (1/12/88)
45. Pillsbury Company (8/26/88).
46. Chicago Missouri and Western Railway (6/2/88).
47. Illinois Central Gulf (5/1/84).
48. Illinois Central Gulf (8/5/86).
49. Illinois Central Gulf (12/30/86).

APPENDIX C

I. Principal Place of Business

Chicago and Illinois Midland Railway Company, 15th & North Grand Avenue East, Springfield, Illinois 62702

II. Permitted Encumbrances

1. Encumbrance created by the Lease of 110 100-ton Gondola Cars to Transportation Equipment, Inc.
2. Encumbrance created by the Box Car Lease with Solomon Grinding Chem Service, Inc.
3. Encumbrance created by Contract to purchase Motorola communications equipment assigned to Associates Capital Services Corporation (Financing Statement Nos. 2228447 and 2358172 filed with the Secretary of State of Illinois).
4. Encumbrance created pursuant to that certain Security Agreement made as of the 21st day of December, 1989, by and among Chicago & Illinois Midland Railway Company, Northwestern National Life Insurance Company, Northern Life Insurance Company and North Atlantic Life Insurance Company of America.

MDW 8/063